

Digital Finance Outreach – Croatia

– event report

1. Introduction

On Monday, June 8th, 2020, the *European Commission Representation in the Republic of Croatia* hosted the event *Digital Finance Outreach – Croatia*. The event was a part of a series of events organized in collaboration with the Member States on fintech and digital innovation in the financial sector and a step in the preparation of the new *EU Digital Finance Strategy*.

Digital Finance Outreach – Croatia was held online and was open to the public who previously needed to register. The event was organized in collaboration with the *Croatian Financial Services Supervisory Agency (Hanfa)* and the *Croatian National Bank (CNB)*. This event was an opportunity to gather key Croatian stakeholders in digital finance and facilitate the exchange of experiences in the context of ongoing and forthcoming developments in digital finance in the EU.

The duration of the event was 126 minutes with the roundtable discussion between key stakeholders. Out of 59 registered participants, 42 of them attended the event, representing various stakeholders, including:

- Incumbent firms (banks, investments firms, insurance companies, etc.);
- IT services providers;
- Industry associations;
- Start-ups and SMEs;
- Government bodies;
- Regulators.

2. Event activities and key outcomes

Efforts were taken to:

- analyse the consequences of technology-driven innovation in financial services for the existing regulatory framework in the EU;
- identify stakeholders' position regarding financial innovations and the existing EU regulatory framework;
- identify stakeholders expectations from policymakers in facilitating new business models, applications, processes, and products in Digital Finance;
- exchange experiences in establishment innovation facilitators in Croatia and discuss future possibilities in developing innovation facilitators and supporting innovative projects in the EU;
- address the problems of the existing regulatory framework in accommodating financial innovation;
- present key regulatory developments shaping the future of financial services regulation; and
- discuss possibilities in developing an innovation-friendly regulatory regime.

Digital Finance Outreach – Croatia started with the introductory session. The role of the introductory session and opening presentations was to facilitate stakeholders' discussion in the following, more industry-oriented, sessions.

The introductory session set the context of the event with plenary speakers, including DG FISMA representative, who highlighted EU policy priorities in developing the new *EU Digital Finance Strategy*, as well as an overview of undertaken actions in the context of public consultations regarding the *EU regulatory framework for crypto-assets and regulatory framework improving resilience against cyberattacks*.

The CNB representative gave a detailed insight into the establishment and work of CNB's innovation facilitator (CNB's Innovation hub) and a more broad CNB's approach to financial innovation. Hanfa's representative held a presentation under the title *The Future of Financial Services Regulation: Regulatory and Supervisory Standpoint*, highlighting main trends shaping the future of financial services (*Disintegration and Disintermediation of Financial Services*) and addressing the problems and potential solutions to the future financial services regulation. The session was closed with a 'question time'.

The group sessions were divided into three parts:

- General discussion on fintech
- Blockchain/DLT/cryptoassets
- AI

Industry representatives led the discussion in group sessions and Hanfa's representative served as a moderator.

The representative of the largest Croatian fintech firm opened general discussion on fintech, illustrating their core banking as a service (SaaS) business model, their experiences in key markets outside of the EU, and impressions they had on third markets as an EU firm. Other participants followed the opening presentation with their impressions and questions.

Key findings from the group general discussions on fintech:

- digital finance products are a necessity in times of physical social distancing;
- fintech players can help us better navigate through the crisis;
- the regulatory framework in the EU may be very complex in accommodating scalable fintech solutions (for example in the SAAS business model);
- on the other hand, "EU origin" label on the financial and IT products can have a positive impression in third-country markets;
- well balanced EU Digital Finance can ensure the global competitiveness of the EU in fintech, and smaller markets such as Croatian can contribute to that.

After a general discussion on fintech, the participants continued the discussion on crypto assets. Remarks were made from the largest crypto industry representatives in Croatia and representatives of the crypto assets industry association. Access to traditional finance was highlighted as one of the key problems for firms involved in crypto and DLT in the EU. Nevertheless, the representative of the banking industry association made interventions too, with comments on the level playing field between incumbents and start-ups especially regarding the AML and KYC.

Key findings from the group discussions on crypto assets:

- firms dealing with crypto access may have imitated access to traditional finance;
- the focus of policy for regulating crypto-assets should be to build a level playing field between start-ups and incumbents, to address the same risks with the same regulatory approach and guarantee fair competition;

- policymakers should use a light touch on areas that still need further development and consideration, gradually increasing the complexity of the framework only once the potential for scale has been achieved.

The last session was focused on the AI and it started with the remarks made by a presenter from the association of Croatian software exporters regarding COVID-19 influence on the software development industry in Croatia. The conclusion was that the short-term influence of COVID-19 is very negative, especially in the context of software exports. The industry representatives made illustrative examples of challenges in the development of the AI in a regulated industry that may incentivize the implementation of the AI solutions for the parts of the financial services stack that are not so heavily regulated or not regulated at all. Nevertheless, industry representatives gave positive feedback regarding the non-discriminatory principles in the future regulatory framework, similar to the European commission's approach in the *AI whitepaper*.

Key findings from the group discussions on AI:

- COVID-19 may have negative short-term impacts on the software industry in Croatia;
- over-complex and over-burdensome regulatory framework may discourage development and implementation of the advance of the AI solutions in the financial services industry;
- certain core values, such as non-discriminatory principles, can be integrated into the technology choices used in innovative solutions, thereby actively stimulating the types of innovation that have the highest likelihood to create and protect significant public value.

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